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Statewide Fiscal Services Dept.
Expenditure Audit Section
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Post-Payment Audit of the Office of Capital and Forensic Writs



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EXECUTIVE SUMMARY

Audit scope

We audited a sample of the Office of Capital and Forensic Writs (Office) payroll, purchase and travel transactions that processed through the Uniform Statewide Accounting System (USAS) and the Uniform Statewide Payroll/Personnel System (USPS) during the period beginning March 1, 2015, through Feb. 29, 2016, to determine compliance with applicable state laws.

The Office receives appendices with the full report that includes a list of the identified errors. Copies of the appendices may be requested through a [Public Information Act](#) inquiry.

The audit provides a reasonable basis for the findings set forth in this report. The Office should implement the recommendations listed in the Detailed Findings of this report. It is the Office's responsibility to seek refunds for all overpayments unless it determines it is not cost effective to do so. If necessary, the Comptroller's office may take the actions set forth in Texas Government Code, Section 403.071(h), to ensure that the Office's documents comply in the future. The Office must ensure that the findings discussed in this report are resolved.

Texas law requires the Texas Comptroller of Public Accounts (Comptroller's office) to audit claims submitted for payment through the Comptroller's office. All payment transactions are subject to audit regardless of amount or materiality.

Payroll transactions and payroll deductions

Payroll transactions were audited for compliance with the General Appropriations Act (GAA), the [Texas Payroll/Personnel Resource](#) and other pertinent statutes.

The audit identified:

- Prior state service verification/service credit missing

A limited sample of voluntary contributions was also audited.

- No issues were identified.

Purchase transactions and Revenue Refunds

Purchase transactions and revenue refunds were audited for compliance with the GAA, [eXpendit](#), the [State of Texas Procurement Manual](#) and other pertinent statutes.

The audit identified:

- Term contract not used
- Missing verification of service
- Improper contracting process

Travel transactions

Travel transactions were audited for compliance with the GAA, [Texttravel](#) and other pertinent statutes.

The audit identified:

- Lack of conservation of state funds

Fixed assets

The audit included a limited review of three fixed assets acquired by expenditures during our audit period to test for accurate reporting and to verify existence of the asset.

- No issues were identified.

Third-party transactions

The audit included a review of several third-party transaction reports ran before fieldwork to test compliance with a wide variety of requirements. The documents included a Payment Card Invoice Number & Description report, which registers data related to payment cards that may show confidential information.

The review identified:

- Thirty-four transactions with incorrect data in the invoice number field.

Security

The audit included a security review to identify any of the Office's employees with security in USAS, USPS or on the voucher signature cards who were no longer employed or whose security had been revoked. Upon termination or revocation, certain deadlines must be observed so that security can be revoked in a timely manner.

The review identified:

- One employee retained ability to expend funds after termination.

Internal control structure

The Office's internal control structure was reviewed. The review was limited to obtaining an understanding of the Office's controls sufficient to plan the audit and did not include tests of control policies and procedures.

The audit identified:

- One employee has the ability to pick up warrants and approve payment vouchers.

Direct deposit authorization forms

A review was conducted of the Office's procedure to comply with the federal mandate to properly identify and handle payments involving the movement of funds internationally.

- No issues were identified.

Prior post-payment audit and current audit recurring findings

A prior post-payment audit of the Office's payroll, purchase and travel transactions was concluded on Aug. 31, 2012.

During the current audit, the following recurring finding was identified:

- Control weakness over expenditure processing.

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DETAILED FINDINGS — PAYROLL

Prior State Service Verification/Service Credit Missing

Finding

In our audit of payroll transactions, we identified three employees with incorrect effective state service dates in USPS. Two employees listed prior state service on their job applications but the prior service verification forms were not obtained from the previous employing agencies. The state service was not verified and entered into USPS. One employee's prior service verification form was in the file; however, not all of the creditable state service was entered into USPS. These errors resulted in an underpayment of longevity pay for all three employees for a total of \$1,440, of which \$800 was in the audit sample period.

The Office's procedures include obtaining prior state service verifications whenever an employee indicates previous state employment on the Office's internal form. However, in two instances, the Office did not obtain the verification of prior service. The Office explained the error was due to an oversight.

In one instance, the Office did obtain the verification but did not enter it into USPS. The Office stated that it overlooked entering the employee's previous state employment, which resulted in using an incorrect date to calculate the employee's longevity payments.

When an agency hires an employee, the agency must research whether the employee has prior state service. If prior state service exists, the agency must confirm the amount of lifetime service credit and properly record it or run the risk of underpaying longevity pay. The proper calculation of the effective service date is derived by subtracting the total days of lifetime service credit from the most recent employment date. That date is used to determine when the longevity pay is to be increased.

See [Texas Payroll/Personnel Resource – Longevity Pay](#).

We provided the Office with the schedule and calculations of the incorrect longevity payment amounts. They are not included with this report due to confidentiality issues.

Recommendation/Requirement

The Office should continue to review each employee's job application and the Office's internal form for prior state service for all current and new employees and ensure that the verification is recorded properly. The Office must also ensure that prior state service is properly verified and documented for its employees. The Office must compensate the employees who were underpaid longevity pay.

Additionally, the Office must ensure that its internal operating procedures include quality control measures that will detect any underpayments of compensation to a state employee.

Office Response

Since the audit, we've resolved the issues identified relating to prior service and have trained our accountant in the proper procedures for documenting prior state service at the time of employment.

DETAILED FINDINGS — PURCHASE

Term Contract Not Used

Finding

We identified two transactions where the Office did not use term contracts to purchase the goods. The Office stated it was unaware that these items were on the list of term contracts.

The [*State of Texas Procurement Manual*](#), Section 2.6, Term Contracts states, “In accordance with the delegations established by Texas Government Code, Section 2155.132, and 34 Texas Administrative Code, Sections 20.40–20.41, and this Procurement Manual, state agencies are required to use the established term contracts for procurement of goods and services.” The term contracts can be viewed online at [TxSmartBuy](#).

Recommendation/Requirement

We recommend the Office review the existing term contracts to determine if the items the Office is looking to purchase are offered on term contracts before selecting a different procurement process.

Office Response

Since the audit, we’ve implemented new procedures, including relying on TXSmartBuy. We review term contracts to determine whether the items we need are offered on these contracts before we select a different procurement process.

Missing Verification of Service/Insufficient Contract Provisions

Finding

We identified two transactions under one contract that were missing documentation necessary to verify the service was provided. One purchase transaction paid for the vendor's services but was missing the time sheets necessary to verify the number of hours and the rate paid as stated in the contract. Another purchase transaction was missing the documentation necessary to support the vendor's travel expenses.

In addition, the contract between the Office and the vendor did not have sufficient controls over the state expenditures. The contract included a non-refundable advance payment that would serve as a retainer and would apply toward future contract billings. An advanced payment to a vendor in a form of a service retainer that does not include sufficient control over the Office's funds is not a recommended practice.

The Office is authorized to hire experts under Texas Government Code, Section 78.053(b). Since the contract requires advanced payment, the agency must show that the expenditure serves a public purpose. Otherwise, the expenditure could be seen as benefitting private parties in violation of Texas Constitution, Article III, Section 51. Under the [State of Texas Procurement Manual](#), Section 2.38 and [eXpendit](#) — Advance and Late Payments, the agency must retain documentation in its files explaining the necessity and proper public purpose of the advance payment. State agencies are required to ensure that there are three elements that must exist for the agency to show that an expenditure has a public purpose:

1. The expenditure's predominate purpose is to accomplish a public purpose, not to benefit private parties;
2. Sufficient control over the expenditure is retained to ensure the public purpose is accomplished; and
3. The agency receives a return benefit.

In this case, there was no proof that the public purpose was accomplished, or that the Office received the return benefit for the advance payment. Evidence of the services rendered, public purpose performed and return benefit to the agency was attached to a separate transaction made under the same contract. According to the Office, these errors were due to oversights made when processing the payments.

Recommendation/Requirement

We recommend that the Office amend the contract language to ensure it maintains sufficient control over the expenditures and verify that all unused funds from the retainer are returned to the agency. The Office must not pay a vendor for services unless the vendor has provided time sheets or other documents to enable the Office to determine that the contract terms are followed.

Office Response

We agree with this finding. We have amended the contract language that we use to ensure that sufficient control over expenditures is maintained. In addition, we follow the Comptroller's guidance and do not enter into any contracts that include retainers. Furthermore, no expenditures are made unless the work performed is substantiated through a detailed invoice attached to the purchase voucher that provides a complete accounting of the services rendered and the benefit to the state. In the event that more than one expenditure transaction is made pursuant to a single contract, we now ensure that evidence of the public purpose, the services rendered, and the return benefit to the agency is attached to each transaction, rather than the final transaction under the contract.

Improper Contracting Process

Finding

One purchase transaction did not have all of the documentation necessary to support the expenditure. The contract, which in this case was created internally by the Office, was insufficient in several areas:

- There was no statement of work necessary to explain the service that the Office was going to receive from the vendor.
- Provisions relating to the risk allocation, termination or dispute resolution were not included in the contract.
- Provisions relating to rights and ownership of work product and intellectual property were not stated in the contract.

According to the [*State of Texas Contract Management Guide*](#), Legal Elements of a Contract, a contract is legally binding only if its terms are sufficiently defined to enable a court to understand the parties' obligations. "There are types of provisions that are typically included in contracts, including but not limited to:

1. Administrative provisions;
2. Financial provisions;
3. Provisions that allocate risk;
4. The statement of work;
5. Provisions relating to the contract term, termination and dispute resolution; and
6. Provisions that relate to rights and ownership of work product and intellectual property."

Our review also revealed that the contract was signed by both parties after the service had already begun. Additionally, the invoice that the vendor provided did not include the time sheets needed to verify the minimum number of hours worked as required by the contract. Without proper documentation, we could not determine whether the information entered into USAS was an accurate reflection of the intended purchases made. Proper documentation must be maintained to verify that the payments are valid as well as to maintain a proper audit trail.

Supporting documentation must be made available to the Comptroller's office and in the manner required. The types of supporting documentation the Comptroller's office may require include purchase orders, requisitions, contracts, invoices and receipts. See Texas Administrative Code, Chapter 34, Section 5.51(e)(2)-(3). Proper supporting documentation for a purchase must be maintained at least until the end of the second appropriation year after the appropriation year in which the document was processed through USAS. See Texas Administrative Code, Chapter 34, Section 5.51(e)(5)(A).

According to the Office, these errors were due to an oversight made when creating the contract.

Recommendation/Requirement

The Office should closely review the [*State of Texas Contract Management Guide*](#) to ensure all contract provisions are included and evident in future contracts and that contracts are signed prior to the start of the service, as outlined in the *State of Texas Contract Management Guide*.

Supporting documentation for a purchase document must be made available in an audit to justify the validity of the payment. The Office must ensure adequate supporting documentation exists to verify proper billing and payment.

Office Response

We have changed our form contracts subsequent to the audit, and ensure that all contracts are signed prior to the start of service. The supporting documentation and detailed invoice are provided prior to any payment under the contract. The contract language that was used was inherited from previous agency management and has been changed to comply with state contract management rules.

DETAILED FINDINGS — TRAVEL

Lack of Conservation of State Funds

Finding

We identified four instances where the Office paid an excessive amount for auto rental fees.

The Office did not use the state contracted rate for vehicle rentals. The Office stated that when agency staff makes vehicle reservations for traveling employees, they regularly use state contracts. However, sometimes traveling employees make their own rental reservations and may fail to use the state contract.

According to Texas Government Code, Section 660.007(a), a state agency shall minimize the amount of travel expenses paid or reimbursed by the agency. The agency shall ensure that each travel arrangement is the most cost effective considering all relevant circumstances.

Recommendation/Requirement

Prior to authorizing travel, the Office must closely review the traveler's request to ensure compliance with the above travel regulations and ensure only eligible expenses are reimbursed to employees. The Office must seek a reimbursement from the employee unless it determines it is not cost effective to do so. The Office should consider providing travel training for its travelers.

Office Response

Since the audit, the OCFW has provided travel training for staff members who travel. We ensure that each travel arrangement is the most cost effective considering all relevant circumstances.

DETAILED FINDINGS — THIRD-PARTY TRANSACTIONS

Incorrect Invoice Number Field

Finding

We identified 34 payment card transactions in which incorrect information was entered into the invoice number field in USAS. The invoice number field must display the last 10 digits of the corporate account billing number. This allows the payment card vendor to identify and reconcile payments it receives from the Office. See [*USAS and CAPPS Financials Invoice Number Field Requirements \(FPP E.023\)*](#).

The Office stated that it was unaware of the requirements regarding the invoice number field.

Recommendation/Requirement

The Office must enter the last 10 digits of the corporate account billing number in the invoice number field for all payment card transactions. The Office may enter additional information in this field after these digits, as needed.

Office Response

Our accountant now understands that this field must be filled in.

DETAILED FINDINGS — EXPENDITURE APPROVALS

Control Weakness Over Expenditure Processing

Finding

As part of our planning process for the post-payment audit, we reviewed certain limitations that the Office placed on its accounting staff's ability to process expenditures. We reviewed the Office's security in USAS, USPS and Texas Identification Number System (TINS) and its voucher signature cards that were in effect on April 21, 2016. We did not review or test any internal or compensating controls the Office may have relating to USAS, USPS or TINS security or internal transaction approvals.

One employee could approve vouchers and pick up warrants from the Comptroller's office.

We ran a report to determine whether any of the Office's payment documents processed through USAS during the audit period because of the action of only one individual. The report did not identify any expenditures that were processed without oversight.

To reduce risks to state funds, agencies should have controls over expenditure processing that segregate each accounting task to the greatest extent practical. Ideally, no individual should be able to enter or alter and then release payments or other accounting transactions within the statewide financial systems without another person's involvement.

Recommendation/Requirement

The Office should periodically review its controls over expenditure processing and segregate each task to the extent possible to ensure that no individual is able to process payments without oversight.

Office Response

We are a small agency with only one staff member in charge of accounting, payroll, HR, procurement, travel and reporting. Due to our small size, our Director serves as "back up" for warrant pick up. We will work towards identifying another staff person who can fulfill this "back up" function instead of the Director.

Employee Retained Ability and Security to Expend Funds After Termination/Authority Expired

Finding

During the audit period, the Office did not notify the Comptroller's office about the termination of one employee designated by the Office to approve its expenditures.

The employee remained listed on the Office's voucher signature cards for 18 days after the employees' termination. The Office is required to notify the Comptroller's office within five days after termination, therefore the Office's notification was 13 days delinquent. During those 13 days, the former employee could have approved paper vouchers submitted to the Comptroller's office, and any payment produced by a paper voucher approved by the employee's expired authority would have constituted an unapproved expenditure. See Texas Administrative Code, Chapter 34, Section 5.61.

The lack of timely notification also meant this employee retained USAS and USPS security for 18 days after termination, so the employee could have approved electronic vouchers during that time. When an employee's authority to approve an agency's expenditures is revoked for any reason, the employee's USAS and USPS security profile must be changed not later than the effective date of the revocation or termination to prevent the employee from executing electronic approvals for the agency. See Texas Administrative Code, Chapter 34, Section 5.61(k)(5)(A)-(B).

According to the Office, the employee remained on the signature card and retained USAS and USPS security due to oversight. Any officer or employee may send the Comptroller's office notification of termination or revocation. See Texas Administrative Code, Section 5.61(k)(3)(B). Also, Section 5.61 does not specify how the Comptroller's office is to be notified about designated employees' terminations. Therefore, the Comptroller's office will accept emails, faxes, letters, memos or other writings in advance of the expiration date, as long as the writings indicate that the designated employee has terminated employment, had security revoked or will experience either a termination or a revocation in the near future, and the notification specifies the effective date of the termination/revocation.

Recommendation/Requirement

The Office must enhance its controls to ensure compliance with the preceding requirements. The Office must also ensure that the person responsible for sending these notifications to the Comptroller's office is aware of the designated employee's termination on or before the termination becomes effective and follow through with the Comptroller's office to ensure that the notification was received and the revocation occurred.

Office Response

This issue arose because the former Director of this agency was not reappointed to another term. After learning that he was not reappointed, he left abruptly. At the time of this transition, he was in charge of ensuring compliance with our agency's expenditure controls. In the absence of that Director, it took longer than it should have to take his name off the voucher signature cards. However, this was an aberration and due to the fact that the employee was the former agency head.

Our current Director assumed his position three months later.